HOUSING MARKET OUTLOOK
Saguenay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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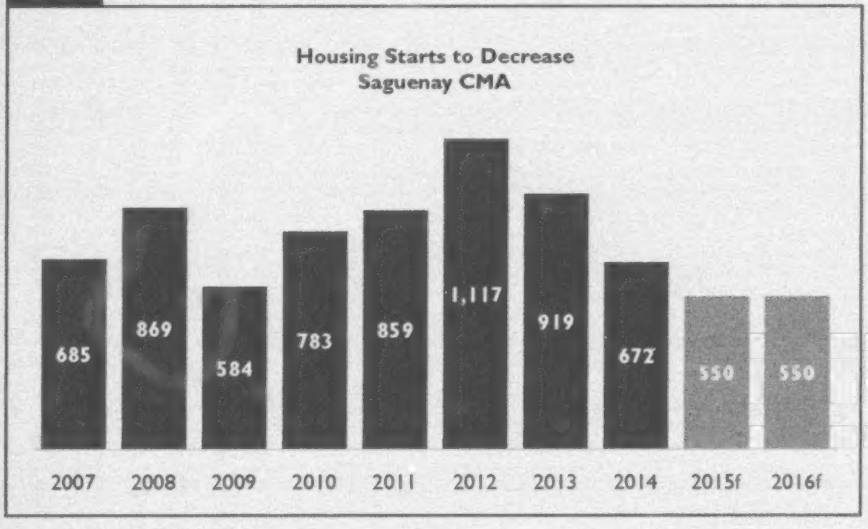
Highlight

- Economic and demographic conditions will limit demand on the Saguenay housing market.
- Housing starts will reach lower levels than in the past.
- Centris® sales will fall slightly this year and then rise next year.
- Existing home prices will register small decreases.
- The rental apartment vacancy rate will be 4.5 per cent over the forecast horizon.

Figure 1

Housing Starts to Decrease
Saguenay CMA



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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New home market: slowdown will continue

The trends that impacted residential construction in 2014 will continue in 2015 and 2016 in the Saguenay census metropolitan area (CMA). Like in 2014, the job market will be sluggish in 2015 and will have repercussions on the overall real estate market. The pace of construction will keep slowing down, as already evidenced by the decrease in housing starts in the first quarter of this year, and inventories of both new and existing homes for sale will stay high.

Despite this environment, 275 single-detached homes will be started in 2015, up by 3 per cent over last year. The inventory of completed and unabsorbed single-detached houses remains low, while demand is holding steady. In 2016, construction should get under way on the same number of units. Although up slightly, the expected level of activity will be below the average of the last ten years, likely as a result of the rapid growth in prices for new single-detached homes.

Multi-unit housing starts, for their part, should decrease in 2015 and then remain stable in 2016. Inventories of new condominiums and semi-detached homes have been steadily rising, signalling that the construction of units of these types will probably not rebound in the short term. The longer absorption times will prompt developers to slow the pace in order to better adjust to demand. Also, on the resale market, buyers have choice and can negotiate more, such that fewer of them are turning to the new home market. As for rental housing, starts are also expected to fall, on account of the increasingly softer market conditions, as evidenced by the rise in the vacancy rate recorded last fall.[1] Given this environment, builders will have to adjust to a lower demand than in recent years.

The adjustment process will therefore continue, and residential construction will decline again this year and then stabilize in 2016. In all, 550 starts should be recorded in each of 2015 and 2016, which will be in line with demographic requirements.

Over the longer term, the aging of the population and the resulting changes in housing needs will influence the housing market. Among other things, demand for new homes is bound to slow down gradually, given the projected decrease in the number of households aged from 25 to 54. Then, the increasingly significant rise in the number of households aged 75 or older will have the potential to increase demand for apartments (conventional and seniors' rental housing units).

Existing home market: further price decreases are anticipated

The resale market recovery will have to wait until next year in Saguenay, given the weak employment growth. In the first quarter of 2015, transactions fell (-2 per cent) from the first quarter of 2014. And no market segment was spared by this decrease.

For 2015, we forecast that there will be 1,100 sales, for a decrease of 4 per cent from last year. In fact, Centris® transactions will fall for the third year in a row. The drop will result from the sluggish job market in the area in 2014. As well, weak household growth and a stagnant first-time homebuyer pool will not support an increase in activity on the market. Also, the growth in prices during the previous decade lowered affordability, particularly for first-time buyers. However, the low mortgage rates will moderate the downward trend.

Figure 2

Source: QFREB by the Centris® system. f: CMHC forecasts

[1] See the section and text box on the rental market.

On the supply side, new listings will stagnate, as a larger proportion of households will probably decide to hold onto their home—rather than sell it—given the current market conditions (longer times to sell, very low growth in prices, etc.). Although new listings are stabilizing, active listings will keep rising, on account of the slowdown in sales. The supply on the resale market will remain at a record level, and buyers will never have had so much choice.

Given this outlook, market conditions will be more favourable to buyers, in all segments.[2] This easing of the market will result in longer times to sell. These factors will push down prices, and the average price should reach $185,900 (-2 per cent).

In 2016, the economic environment will improve slightly, financing conditions will remain favourable, and the increase in sales inherent in the growth of the housing stock will help drive up transactions, which should reach 1,200 units (+9 per cent). Also, the decrease in existing home prices in 2015[3] will slightly widen the gap with new home prices. This trend on the market will potentially attract a greater number of buyers to the resale market, where homes will be even more affordable than on the new home market. All in all, transactions will be up slightly but will remain below the annual average for the last five years (1,300 sales). As for supply, the number of active listings should begin to decrease. However, even though market conditions will tighten, buyers will still be favoured, and the average price will reach $182,200 (-2 per cent).

Rental market: easing will continue

Given the favourable mortgage rates, many renters became homeowners in recent years. That environment, combined with the steady construction of rental dwellings, put upward pressure on the rental housing vacancy rate. Demand was also slowed by the decline in employment and a decrease in the number of migrants in the area.

By the end of 2015, the vacancy rate for the overall market should rise again and reach 4.5 per cent. This will be due, in part, to the decline in the population aged from 15 to 24. As well, a sluggish job market will limit the rise in demand. However, the marked slowdown in the movement to homeownership and the growth in the population aged 65 or older should stimulate demand, as it is known that some of these households choose to return to the rental market.

On the supply side, few rental dwellings have been started over the past year in the Saguenay area and few will get under way this year. This means that few new units will be added to the rental housing stock this year and next year.

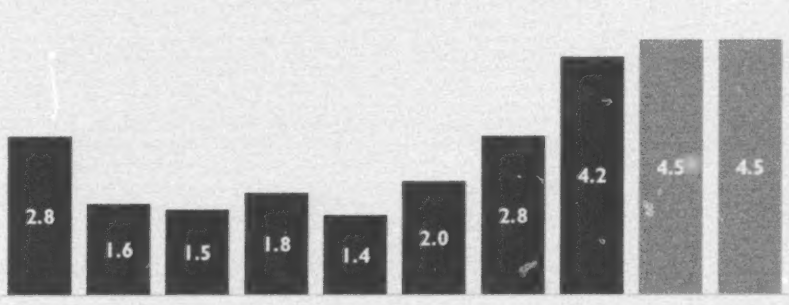
The vacancy rate should stay at 4.5 per cent in 2016, given the relative stability of the rental housing stock and demand, since fundamentals will show little change between 2015 and 2016.

Economic trends: employment and migration will not be very supportive of housing demand

The past few years were particularly austere for the job market in the Saguenay CMA. In fact, nearly 600 full-time jobs were eliminated, on a net basis, between 2012 and 2014, and the area ended the past year with the highest unemployment

Figure 3

Rental Market to Ease
Vacancy Rate (%) – Privately Initiated Structures with Three or More Apartments
Saguenay CMA



Source: CMHC, f: CMHC forecasts

[2] The listings-to-sales ratio was estimated at 15 to 1, on average, for the period from January to March 2015. When this ratio is above 10 to 1, the advantage tends to shift over to buyers.

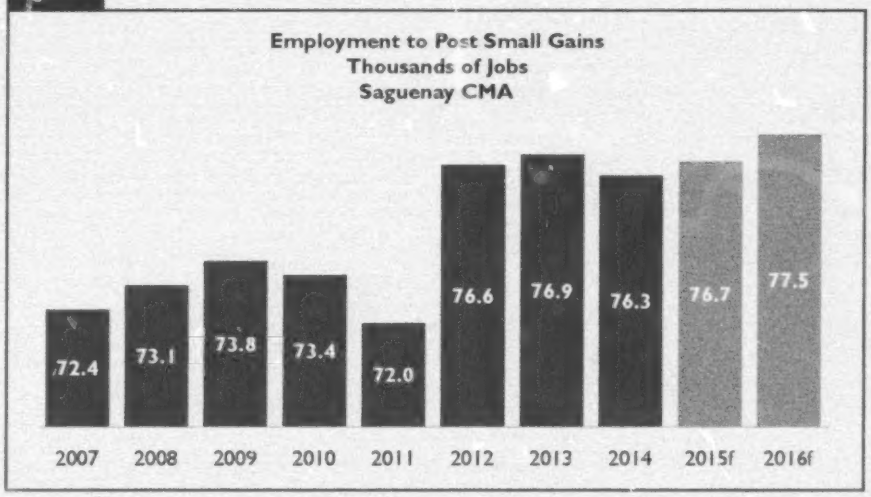
[3] The average price had also registered a decrease in 2014.

rate among all large urban centres in the country. The figures for the first few months of the year are however pointing to a slightly less unfavourable period in 2015, as the unemployment rate hovered around 8.1 per cent and employment surpassed 79,000 jobs. Still, the growth should remain weak over the next two years.

More specifically, employment will rise slightly, by 0.5 per cent in 2015 and by 1.0 per cent in 2016. The contribution of the natural resources sector, a traditional mainstay of economic activity, is expected to be moderate. The forestry sector, which has experienced a prolonged downturn due to reduced residential construction in the United States, has been slow to recover. In the mining sector, several projects are currently on hold, pending a stronger global economic recovery and investment confirmations. The limited private sector capital investment in the area will not be offset by increased public spending, as was the case in past years. Also, companies in the aluminum sector will be facing difficult market conditions, on account of continued high inventories and the relatively low price of this metal. The situation on the job market will therefore reflect the weak growth in these key manufacturing industries. Lastly, the budget cuts will further dampen potential job growth.

Some factors should still help support employment growth in the area. In fact, the tourism industry should benefit from a Canadian dollar that has been low in comparison with the U.S. dollar since the beginning of 2015. The agriculture and agri-food sectors will continue to show some strength over the coming months. Notwithstanding certain positive factors, the rate of growth of the regional economy should remain below the provincial average.

Figure 4



Source: Statistics Canada, f: CMHC forecasts

For 2016, slight growth is expected, and employment should reach 77,500 jobs. The health and social services sector should keep growing, on account of the needs related to the aging of the population. Also, additional wood volumes will become available for the area's forestry companies. In addition, tourism should continue to be a good stimulus for the regional economy. All in all, the economic environment will modestly support housing demand in Saguenay.

Over the longer term, employment growth will also be slowed by the more moderate expansion of the labour supply. According to the forecasts of the Institut de la statistique du Québec, population growth will be slower from 2011 to 2016 than during the previous five years; the area will continue to have one of the lowest growth rates among the regions of Quebec, which will lead to a decrease in the labour force and a reduced need for housing starts.

Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	This year and next, the job market will be sluggish, which will dampen the overall housing demand.
Income	Average weekly earnings rose at the same rate as inflation in the Saguenay CMA. The real income of workers therefore remained stable, which did little to promote access to homeownership.
Population	Net migration should be nil, which will not support housing demand, especially on the rental market.
Resale Market	The wide choice of properties for sale on the existing home market will limit demand and activity on the new home market.

Forecast risks

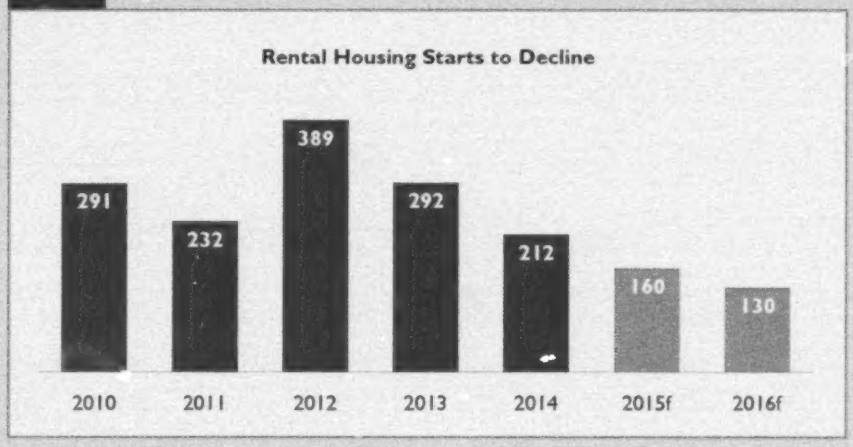
- Employment growth could be greater than expected, if certain major capital projects currently on hold are carried out. If employment is further boosted, this will result in a stronger-than-expected housing demand.
- In the event that major capital projects are carried out, boosting the economy, there will likely be a positive impact on migration. This would stimulate demand for housing, particularly rental dwellings.
- If the current inventories of new homes are absorbed at a slower rate than expected, this could have a larger-than-anticipated negative impact on housing starts in 2015 and 2016.
- A faster-than-expected rise in mortgage rates would cause home sales and prices to fall more significantly.

Spotlight on...

Changes in supply and demand on the Saguenay rental market

During the period from 2010 to 2013, the particularly tight situation on the rental market, where few units were vacant, stimulated rental housing construction. Those years were marked by relatively strong activity. Last year, however, there was a considerable decline in rental housing starts (-27 per cent), and the slowdown will continue in 2015. Following this adjustment, the number of starts should remain similar in 2016. As a result, the anticipated levels of starts will contrast with the volumes registered in previous years.

Figure 5



Source: CMHC f: CMHC forecasts

For a number of years, rental housing demand was supported by rising migration in area, thanks to the strong job market, and by employment growth among young people. In recent years, the migration deficit was eliminated, as fewer young people left Saguenay for other regions. Since 2013, however, the job market has deteriorated, and the number of young people decreased in the area. It is a known fact that young people are major players on the rental market.[4] Over the longer term, on account of the aging of the population, the growth in rental housing demand will increasingly depend on older households.

[4] Residents aged from 15 to 29 accounted for the largest percentage (63 per cent) of renters in the area.

Forecast Summary Saguenay CMA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	400	337	268	275	2.6	275	0.0
Multiples	717	582	404	275	-31.9	275	0.0
Starts - Total	1,117	919	672	550	-18.2	550	0.0
Average Price ($):							
Single-Detached	221,202	238,036	248,638	252,000	1.4	255,000	1.2
Median Price ($):							
Single-Detached	200,000	225,000	225,000	230,000	2.2	235,000	2.2
New Housing Price Index (% chg) (Que.)	1.7	1.0	0.3	s.o.	-	s.o.	-
Resale Market[1]							
Centris® Sales	1,450	1,185	1,144	1,100	-3.8	1,200	9.1
Centris® New Listings	2,409	2,353	2,502	2,600	3.9	2,650	1.9
Centris® Active Listings	905	1,135	1,355	1,400	3.4	1,300	-7.1
Centris® Average Price ($)	185,623	192,237	189,724	185,900	-2.0	182,200	-2.0
Rental Market[2]							
October Vacancy Rate (%)	2.0	2.8	4.2	4.5	0.3	4.5	0.0
Two-bedroom Average Rent (October) ($)	549	571	595	605	1.7	615	1.7
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	76,600	76,900	76,300	76,700	0.5	77,500	1.0
Employment Growth (%)	6.4	0.4	-0.8	0.5	-	1.0	-
Unemployment rate (%)	7.6	7.7	9.6	8.5	-	8.0	-
Net Migration	228	-37	-59	-50	-15.3	-50	0.0

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2015-2016)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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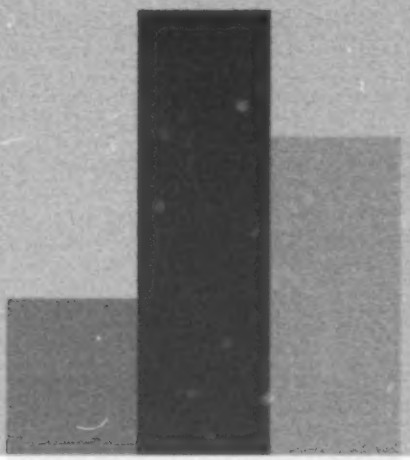

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